

**RAILROAD COMMISSION OF TEXAS
OFFICE OF GENERAL COUNSEL**

**OIL AND GAS DOCKET
NO. 10-0248911**

**IN THE KIOWA CREEK (MARMATON)
FIELD, LIPSCOMB AND OCHILTREE
COUNTIES, TEXAS**

**FINAL ORDER
ADOPTING FIELD RULES
FOR THE KIOWA CREEK (MARMATON) FIELD,
LIPSCOMB AND OCHILTREE COUNTIES, TEXAS**

The Commission finds that after statutory notice in the above-numbered docket heard on October 26, 2006, the presiding examiner has made and filed a report and recommendation containing findings of fact and conclusions of law, for which service was not required; that the proposed application is in compliance with all statutory requirements; and that this proceeding was duly submitted to the Railroad Commission of Texas at conference held in its offices in Austin, Texas.

The Commission, after review and due consideration of the examiner's report and recommendation, the findings of fact and conclusions of law contained therein, hereby adopts as its own the findings of fact and conclusions of law contained therein, and incorporates said findings of fact and conclusions of law as if fully set out and separately stated herein.

Therefore, it is ordered by the Railroad Commission of Texas that the following field rules shall be adopted for the Kiowa Creek (Marmaton) Field, Lipscomb and Ochiltree Counties, Texas:

RULE 1: The entire correlative interval from 7,385 feet, as shown on the log of the Paine No. 1, API No. 357 30042, Section 938, Block 43, H & TC Survey, Ochiltree County, Texas, to the base of the Marmaton Formation, shall be designated as a single reservoir for proration purposes and be designated as the Kiowa Creek (Marmaton) Field.

RULE 2:

(a) No vertical well for oil shall hereafter be drilled nearer than **THREE HUNDRED THIRTY (330)** feet to any property line, lease line or subdivision line and no vertical well shall be drilled nearer than **NINE HUNDRED THIRTY THREE (933)** feet to any applied for, permitted or completed well in the same reservoir on the same lease, pooled unit or unitized tract.

(b) No horizontal drainhole well for oil shall hereafter be drilled such that the penetration point or terminus of a horizontal drainhole is nearer than **THREE HUNDRED THIRTY (330)** feet to any property line, lease line or subdivision line.

(c) For each horizontal drainhole well, the perpendicular distance from any point on such horizontal drainhole between the penetration point and the terminus, to any point on any property line, lease line or subdivision line shall be a minimum of **THREE**

HUNDRED THIRTY (330) feet. No point on a horizontal drainhole within the correlative interval shall be closer than NINE HUNDRED THIRTY THREE (933) feet to such point on another horizontal well on the same lease, provided that this restriction on spacing between wells shall not apply to horizontal drainhole wells that are parallel or subparallel and do not overlap more than ONE HUNDRED (100) feet.

Where the horizontal portion of the well is cased and cemented back above the top of the correlative interval, the distance to any property line, lease line, subdivision line, or other well will be calculated based on the distance to the nearest perforation in the well, and not based on the penetration point, horizontal drainhole, or terminus.

(d) The aforementioned distances in the above rule are minimum distances to allow an operator flexibility in locating a well, and the above spacing rule and the other rules to follow are for the purpose of permitting only one well to each drilling and proration unit. Provided however, that the Commission will grant exceptions to permit drilling within shorter distances and drilling more wells than herein prescribed whenever the Commission shall have determined that such exceptions are necessary either to prevent waste or to prevent the confiscation of property. When exception to these rules is desired, application therefor shall be filed and will be acted upon in accordance with the provisions of Commission Statewide Rules 37 and 38, which applicable provisions of said rules are incorporated herein by reference.

In applying this rule the general order of the Commission with relation to the subdivision of property shall be observed.

RULE 3: The acreage assigned to an individual oil well for the purpose of allocating allowable production thereto shall be known as a proration unit. The standard drilling and proration units are established hereby to be EIGHTY (80) acres. No proration unit for a vertical well shall consist of more than EIGHTY (80) acres, except as hereinafter provided. The two farthestmost points in any proration unit for a vertical well shall not be in excess of THREE THOUSAND TWO HUNDRED FIFTY (3,250) feet removed from each other. Each proration unit containing less than EIGHTY (80) acres shall be a fractional proration unit. All proration units shall consist of continuous and contiguous acreage which can reasonably be considered to be productive of oil or gas. No double assignment of acreage will be accepted.

If after the drilling of the last well on any lease and the assignment of acreage to each well thereon in accordance with the regulations of the Commission there remains an additional unassigned acreage of less than EIGHTY (80) acres, then and in such event the remaining unassigned acreage up to and including a total of FORTY (40) acres may be assigned as tolerance acreage to the last well drilled on such lease, or may be distributed among any group of wells located thereon so long as the proration units resulting from the inclusion of such additional acreage meet the limitations prescribed by the Commission.

An operator, at his option, shall be permitted to form optional drilling units of FORTY (40) acres. A proportional acreage allowable credit will be given for a well on a fractional proration unit. The two farthestmost points of a FORTY (40) acre fractional proration unit shall not be greater than TWO THOUSAND ONE HUNDRED (2,100) feet removed from each other.

Notwithstanding the above, the acreage assigned to a well which has been drilled as a horizontal drainhole may contain more than EIGHTY (80) acres providing that the following formula is utilized to determine the proper assignment of acreage:

$$A = (L \times 0.32829) + 80 \text{ acres}$$

Where: A = calculated area assignable, if available, to a horizontal drainhole for proration purposes rounded upward to the next whole number evenly divisible by 40 acres;
L = the horizontal drainhole distance measured in feet between the point at which the drainhole penetrates the top of the Marmaton and the horizontal drainhole end point within the Marmaton.

The two farthestmost points in any horizontal drainhole well proration unit shall be determined by the formula:

$$\text{Maximum Diagonal} = 475.933 \sqrt{A}$$

A horizontal well may be developed with more than one horizontal drainhole from a single wellbore. A horizontal drainhole well developed with more than one horizontal drainhole shall be treated as a single well. The horizontal drainhole displacement (L) used for determining the proration unit assignable acreage (A) for a well with multiple horizontal drainholes shall be the longest horizontal drainhole length plus the perpendicular projection on a line that extends in a 180 degree direction from the longest drainhole, or any other horizontal drainhole drilled in a direction greater than 90 degrees from the longest horizontal drainhole.

Operators shall file with the Commission certified plats of their properties in said field, which plats shall set out distinctly all of those things pertinent to the determination of the acreage credit claimed for each well; provided that if the acreage assigned to any proration unit has been pooled, the operator shall furnish the Commission with such proof as it may require as evidence that interests in and under such proration unit have been so pooled.

RULE 4: The maximum daily oil allowable for a well in the field shall be determined by multiplying 198 barrels of oil per day by a fraction, the numerator of which is the acreage assigned to the well for proration purposes and the denominator of which is the maximum acreage authorized by these field rules for proration purposes, exclusive of tolerance acreage. The daily oil allowable for a well in the field shall be adjusted in accordance with Statewide Rule 49(a) when applicable.

Done this 5th day of December, 2006.

RAILROAD COMMISSION OF TEXAS
(Order approved and signatures affixed by
OGC Unprotested Master Order dated
December 5, 2006)